VISION

A prosperous, sustainable and community-oriented city

MERAFONG CITY LOCAL MUNICIPALITY

MEDIUM TERM BUDGET 2013/2014 TO 2015/2016

MISSION

To provide quality services to our community through accountable governance

ITEM: MEDIUM TERM BUDGET 2013/2014 TO 2015/2016

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Purpose

The purpose of this document is to table the 2013/14 to 2015/2016 Medium Term Budget and budget related policies for approval.

The Budget has been compiled within the framework of the MFMA, Circulars No 66 and 67 of the National Treasury and the New Municipal Budget Regulations.

Circulars No 66 and 67 provides instructions, guidance and information on crucial issues that municipalities need to consider when preparing their budgets. These issues include the local response to the global economic crisis, headline inflation forecasts, revision of rates, tariffs and other charges, transfers to municipalities, budget process and submissions, and the Municipal Budget and Reporting Regulations.

On 23 January 2009 the Minister of Finance gazetted new Municipal Budgeting and Reporting Regulations. The Merafong City Local Municipality is required to fully comply with the regulations as from 01 July 2010, that is, full compliance when the final budget is tabled in May 2013. For the budget, it is expected that the Municipality complies as far as possible.

Part 1

Executive Summary

The application of sound financial management principles for the compilation of the Councils financial plan is essential and critical to ensure that the Council remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Councils business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The Council has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Council has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2012/14 MTREF.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- The reduction in the allocation from the Division of Revenue Act in terms of equitable share and the Municipal Infrastructure Grant.
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope;
- The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2013/14 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- Producing a Balanced Budget – ensuring that the expenditure is aligned to the revenue and that the Council has sufficient cash to meet its debt obligations.
- Sustainability – endure that the capital investment is within the financial capacity of Council and ensure that there is continuous investment on the infrastructure maintenance and replacement in a medium to long term period.
- Budget needs to respond to basics service delivery.
- Stabilise the balance sheet – creating cash reserves to support and improve the current ratio and future capital investment capacity.
- Stabilisation and protection of the revenue base.
- Need to produce savings to facilitate the implementation of new programmes.

- On-going costs should be funded with on-going revenues – aligning continuing expenditures with continuing revenues, on a level that can be reasonably sustained and reduce reliance on onetime funding.
- Review all Council services and programs for operational efficiencies to improve service levels and delivery / managing the cost down.
- The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in the Adjustments Budget were adopted as the upper limits for the new baselines for the 2013/14 annual budget;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

GT484 Merafong City - Table A1 Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Property rates	76.018	82.154	87.530	260.972	271.562	271.562	271.562	289.361	309.930	331.958
Service charges	368.624	402.948	436.437	511.073	495.128	495.128	495.128	529.042	566.617	606.895
Investment revenue	15.532	15.178	14.890	16.942	16.942	16.942	16.942	16.942	17.959	19.036
Transfers recognised - operational	159.327	158.120	187.237	312.195	368.072	368.072	368.072	335.036	184.927	176.505
Other own revenue	25.946	29.953	39.133	69.194	75.843	75.843	75.843	75.556	78.201	86.530
Total Revenue (excluding capital transfers and contributions)	645.448	688.353	765.228	1.170.375	1.227.546	1.227.546	1.227.546	1.245.936	1.157.634	1.220.923
Employee costs	199.421	211.537	243.238	296.626	314.302	314.302	314.302	333.879	355.581	376.916
Remuneration of councillors	13.115	13.779	15.332	15.309	16.277	16.277	16.277	17.269	18.305	19.404
Depreciation & asset impairment	18.531	19.610	33.972	19.186	28.680	28.680	28.680	30.780	32.922	35.107
Finance charges	11.499	8.568	8.590	15.797	15.797	15.797	15.797	15.797	15.797	15.797
Materials and bulk purchases	190.169	227.648	267.097	307.103	302.757	302.757	302.757	329.535	352.812	377.765
Transfers and grants	–	–	–	–	–	–	–	–	–	–
Other expenditure	184.092	287.377	237.657	714.102	799.103	799.103	799.103	762.368	544.022	478.773
Total Expenditure	616.827	768.519	805.886	1.368.124	1.476.917	1.476.917	1.476.917	1.489.629	1.319.439	1.303.761
Surplus/(Deficit)	28.621	(80.166)	(40.658)	(197.749)	(249.370)	(249.370)	(249.370)	(243.692)	(161.805)	(82.838)
Transfers recognised - capital	125.610	95.323	102.074	246.687	249.371	249.371	249.371	243.692	161.805	82.838
Contributions recognised - capital & contributed assets	6.427	54.401	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0
Capital expenditure & funds sources										
Capital expenditure	142.017	114.496	108.399	323.473	314.116	314.116	314.116	354.953	313.384	216.685
Transfers recognised - capital	125.610	95.323	102.074	246.687	251.507	251.507	251.507	243.692	158.909	79.946
Public contributions & donations	–	–	888	5.000	–	–	–	–	–	–
Borrowing	–	2.508	130	22.000	12.328	12.328	12.328	62.906	45.000	84.000
Internally generated funds	16.407	16.664	5.307	49.787	50.280	50.280	50.280	48.355	109.975	52.740
Total sources of capital funds	142.017	114.496	108.399	323.473	314.116	314.116	314.116	354.953	313.884	216.686
Financial position										
Total current assets	379.927	417.493	510.525	420.546	309.226	309.226	326.980	628.919	530.256	584.126
Total non current assets	2.459.545	2.479.948	2.798.944	2.872.359	3.085.708	3.085.708	3.124.445	3.092.462	3.290.072	3.391.799
Total current liabilities	358.694	418.922	518.271	395.147	315.232	315.232	341.724	327.980	251.078	253.051
Total non current liabilities	151.314	141.709	147.092	209.776	184.088	184.088	184.088	224.095	276.002	351.845
Community wealth/Equity	2.329.464	2.336.810	2.644.106	2.687.982	2.895.614	2.895.614	2.925.614	3.169.306	3.293.249	3.371.029
Cash flows										
Net cash from (used) operating	89.519	151.127	145.699	364.125	47.276	47.276	65.031	600.534	177.221	193.365
Net cash from (used) investing	(139.656)	(104.839)	(105.577)	(320.442)	(248.899)	(248.899)	(248.899)	(351.482)	(310.232)	(212.844)
Net cash from (used) financing	(10.742)	(12.840)	(13.895)	11.759	11.759	11.759	11.759	52.255	34.349	73.349
Cash/cash equivalents at the year end	245.490	278.937	305.164	334.379	115.300	115.300	133.054	434.361	335.698	389.567
Cash backing/surplus reconciliation										
Cash and investments available	258.060	288.242	314.937	292.342	125.547	125.547	143.302	445.076	346.881	401.218
Application of cash and investments	128.729	211.093	236.985	162.928	65.143	65.143	91.635	67.518	(31.344)	(15.154)
Balance - surplus (shortfall)	129.331	77.149	77.951	129.414	60.404	60.404	51.667	377.558	378.225	416.371
Asset management										
Asset register summary (WDV)	2.443.387	2.468.564	2.787.946	2.860.033	2.825.896	2.831.217	3.078.494	3.078.494	3.275.635	3.376.894
Depreciation & asset impairment	18.531	19.610	33.972	19.186	28.680	28.680	30.780	30.780	32.922	35.107
Renewal of Existing Assets	–	–	–	–	–	–	–	18.280	37.070	16.900
Repairs and Maintenance	19.433	22.589	34.741	53.329	53.329	53.329	24.220	24.220	26.835	27.983
Free services										
Cost of Free Basic Services provided	–	67.696	71.767	91.051	91.051	91.051	86.991	86.991	93.363	100.214
Revenue cost of free services provided	192.686	110.812	389.130	166.686	230.144	230.144	206.174	206.174	65.031	69.397
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Total operating revenue has grown by 1 per cent or R18 million for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget. For the two outer years, operational revenue will decrease by R58 and R22 Million respectively, equating to a total decrease in revenue of R89 million over the MTREF when compared to the 2012/13 financial year.

Total operating expenditure for the 2013/14 financial year has been appropriated at R1.322 million and translates into a budgeted deficit of R76.320 million. When compared to the 2012/13 Adjustments Budget, operational expenditure has grown by 1 per cent in the 2013/14 budget and decrease by R58 Million R22 Million for each of the respective outer years of the MTREF. The operating deficit for the two outer years will remains stable. These deficits are as of a result of depreciation costs on fair value adjustments on infrastructure assets. These deficits are funded from the accumulated surplus of R2.3 billion.

The capital budget of R354.9 Million for 2013/14 is 13 per cent more when compared to the 2012/13 Adjustment Budget. A substantial portion of the capital budget will be funded from borrowing over MTREF with anticipated borrowings of R62.9 Million in 2013/2014 and R45 Million in the 2014/2015 and R84 Million for the 2015/2016 financial years. Note that the Council has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term.

Section 18 Chapter 4 of the MFMA prescribed that an annual budget may only be funded from realistically anticipated revenues collected.

The following aspects were taken into account when the budget was compiled.

The average payment levels for the past three years were as follows:

2009/2010	83.49%
2010/2011	85.28%
2011/2012	85.10%

Rand Water will increase its tariffs 9.82% for the 2013/2014 financial year.

The Eskom price increase of bulk electricity supplied to municipalities will increase by 8 per cent on 1 July 2013. NERSA approved an annual 8 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2013/14 to 2017/18.

The results of the latest national census were released by Statistics South Africa in October 2012. According to the 2011 Census, Merafong population had decreased.

The threshold for receiving free basic services rises from R1500 per month to two times the monthly state pension (R2 520.00 per month).

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, Merafong will experience large changes in their equitable share allocations. To smooth the impact of these changes and give Merafong time to adjust the new allocations it will be phased in over five years.

For municipalities with smaller allocations under the new formula, the phase-in mechanism will measure the difference between the municipality's old and new allocations and will close this gap by 20 per cent each year. This means that in the first year, a municipality will only experience a change equivalent to 20 per cent of the gap between their allocations under the old and the new formulas, in the second year they will experience a 40 per cent change, and so on until in the fifth year their allocation is determined entirely through the new formula.

Inflation forecasts

Municipalities must take the following macro-economic forecasts into consideration when preparing their 2013/14 budgets and MTREF –

Fiscal year	2010/11	2011/12	2012/13	2012/13	2014/15	2015/16
Actual			Estimate	Forecast		
Real GDP growth	3.4	3.1	2.5	3.0	3.6	3.8
CPI inflation	3.8	5.6	5.6	5.6	5.4	5.4

Source: Budget Review 2013
Note that the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

Merafong had to take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

National Treasury had advised municipalities that the average CPI for this period is 5.6 per cent. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget year of 6.75 per cent (5.6 per cent plus 1.25 per cent).

The agreement also provides for a 1 per cent increase for the 2014/15 financial year. In this regard, municipalities may provide for a 6.4 per cent (5.4 per cent plus 1 per cent) increase for the 2014/15 budget year.

Tariffs are structured to encourage more efficient use of services and to generate the resources required to fund the maintenance, renewal and expansion of the infrastructure required to provide the services.

Tariffs increases in rates, tariffs and other charges are at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of Merafong.

Councils Refuse Removal tariffs are not fully cost reflective, and a pricing strategy are developed to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time.

Operating Revenue Framework

For Merafong City to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

Expenditure has been trimmed in areas that will not adversely affect service delivery, or where programmes are underperforming.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Council and continued economic development;
- Efficient revenue management, which aims to ensure a 87.5 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

GT484 Merafong City - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue By Source											
Property rates	2	71.959	78.933	85.957	259.017	269.607	269.607	269.607	287.289	307.733	329.629
Property rates - penalties & collection charges		4.059	3.221	1.574	1.955	1.955	1.955	1.955	2.072	2.197	2.328
Service charges - electricity revenue	2	147.193	158.090	182.143	217.991	217.991	217.991	217.991	234.643	253.415	273.688
Service charges - water revenue	2	178.638	199.372	199.514	227.562	210.128	210.128	210.128	225.276	238.793	253.120
Service charges - sanitation revenue	2	17.587	19.696	20.298	30.249	31.738	31.738	31.738	31.384	33.267	35.263
Service charges - refuse revenue	2	24.491	25.064	33.894	34.623	34.623	34.623	34.623	37.077	40.414	44.051
Service charges - other		716	727	588	648	648	648	648	661	728	772
Rental of facilities and equipment		988	824	964	681	681	681	681	909	775	821
Interest earned - external investments		15.532	15.178	14.890	16.942	16.942	16.942	16.942	16.942	17.959	19.036
Interest earned - outstanding debtors		7.085	12.010	17.008	19.358	19.358	19.358	19.358	20.519	21.750	23.055
Dividends received		–	–		–	–	–	–			
Fines		1.453	1.516	4.499	5.682	5.682	5.682	5.682	6.023	6.059	6.095
Licences and permits		9.955	9.823	8.865	33.808	33.808	33.808	33.808	35.836	37.987	40.266
Agency services		–	–		–	–	–	–			
Transfers recognised - operational		159.327	158.120	187.237	312.195	368.072	368.072	368.072	335.036	184.927	176.505
Other revenue	2	5.537	5.779	7.797	9.665	12.382	12.382	12.382	9.268	8.450	12.921
Gains on disposal of PPE		928	–			3.933	3.933	3.933	3.000	3.180	3.371
Total Revenue (excluding capital transfers and contributions)		645.448	688.353	765.228	1.170.375	1.227.546	1.227.546	1.227.546	1.245.936	1.157.634	1.220.923
Expenditure By Type											
Employee related costs	2	199.421	211.537	243.238	296.626	314.302	314.302	314.302	333.879	355.581	376.916
Remuneration of councillors		13.115	13.779	15.332	15.309	16.277	16.277	16.277	17.269	18.305	19.404
Debt impairment	3	37.745	75.538	49.372	90.603	90.603	90.603	90.603	95.399	101.123	107.191
Depreciation & asset impairment	2	18.531	19.610	33.972	19.186	28.680	28.680	28.680	30.780	32.922	35.107
Finance charges		11.499	8.568	8.590	15.797	15.797	15.797	15.797	15.797	15.797	15.797
Bulk purchases	2	190.169	227.648	267.097	307.103	302.757	302.757	302.757	329.535	352.812	377.765
Other materials	8		–								
Contracted services		32.660	36.344	51.289	50.818	57.956	57.956	57.956	72.401	72.775	77.094
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	113.686	175.495	133.903	572.681	650.545	650.545	650.545	594.568	370.124	294.489
Loss on disposal of PPE		–	–	3.093							
Total Expenditure		616.827	768.519	805.886	1.368.124	1.476.917	1.476.917	1.476.917	1.489.629	1.319.439	1.303.761
Surplus/(Deficit)		28.621	(80.166)	(40.658)	(197.749)	(249.370)	(249.370)	(249.370)	(243.692)	(161.805)	(82.838)
Transfers recognised - capital		125.610	95.323	102.074	246.687	249.371	249.371	249.371	243.692	161.805	82.838
Contributions recognised - capital	6	6.427	54.401	–	–	–	–	–	–	–	–
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions		160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0
Taxation											
Surplus/(Deficit) after taxation		160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0
Share of surplus/ (deficit) of associate	7										
Surplus/(Deficit) for the year		160.658	69.558	61.417	48.938	0	0	0	(0)	(0)	0

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

1.1 Assessment Rates

Council had implemented the second valuation roll as determined by the Municipal Property rates Act in the 2012/2013 financial year.

Council received in excess of 3000 objections and is dealt with in terms of the Local Government Municipal Property Rates Act.

A concern is that the objection processes are not concluded. Its envisage that the objections from the mines will only be concluded in the first quarter of 2013/2014.

If there will be changes to the valuation roll it can only be affected in the 2013/14 adjustment budget. The biggest concern is that if there's going to be substantial reductions in the valuation roll it will affect councils revenue. In terms of the Local Government Municipal Property Rates Act. All changes must be affected from date of the implementation of the valuation roll.

Council had to appoint a legal firm to assist council in the objection process against the mines.

Council will not be able to increase tariffs.

It's recommended that rates be increased by 6.5% for the 2013/2014 financial year. Councils assessment rates represent 25% of councils own revenue. This is line with the recommended guideline.

1.2 Electricity sales

The Eskom price increase of bulk electricity supplied to municipalities will increase by 8 per cent on 1 July 2013. NERSA approved an annual 8 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2013/14 to 2017/18.

NERSA is in the process of determining a guideline increase for municipal electricity tariffs.

They have indicated that they will only be in a position to finalise this guideline by the end of March 2013. Bulk electricity as a cost driver can contribute as much as 75 per cent of municipalities' electricity function, and considering that the average wage increase (a significant cost component of the municipal electricity function) for the 2013/14 Financial Year is 6.85 per cent (5.6 per cent plus 1.25 per cent) municipalities are advised to limit electricity increases to between 7.5 and 8.0 per cent.

Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective to ensure continued financial sustainability.

It's recommended that council apply to NERSA for an average increase of 8%. The proposed increase variances will be from 5.5% for consumers using 50KwH and less to 10% for consumers using in excess of 600KwH electricity.

1.3 Water and Sanitation Sales

Rand Water had advised council that they will increase their water tariffs to municipalities by 9.82% from the 1 July 2013. This is well above the current inflation rate. This will have a negative effect on council's tariffs.

National Treasury are reminding municipalities to review the level and structure of their water and sanitation tariffs carefully with a view to ensuring: Water and sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; Water and sanitation tariffs are structured to protect basic levels of service; and Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

Councils water tariffs are fully cost reflective and do protect basic level of services.

National Treasury advised councils that to mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water 'losses'.

A water loss management strategy is approved and will be implemented during the 2013/2014 financial year. Water used by council own properties are levied and do not form part of unaccounted for water.

Council had implemented block tariffs and is structured to encourage efficient and sustainable consumption.

Its recommended that Water will increase by 10% which is in line with the bulk increases by Rand Water.

1.4 Refuse removal

Merafong tariff increases are not In line with the requirement from National Treasury of 6% and will increased by 9%. This is to ensure that solid waste tariffs cover the cost of providing the different components of the service. The service is still not cost reflective and will have to be phased in over three years.

National Treasury prescribed the following: tariffs for solid waste management must take into account that councils must maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites. They further encouraged municipalities to explore alternative methodologies to manage solid waste, including recycling and incineration in plants that use the heat energy to generate electricity.

Council are providing for the rehabilitation of the landfill site and are provided for in the tariffs. A provision for the rehabilitation of the land fill site in terms of GRAP 19 is in place and backed by cash reserves.

1.5 Sewerage

Municipalities are reminded to review the level and structure of their sanitation tariffs carefully with a view to ensuring: Sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; sanitation tariffs are structured to protect basic levels of service; and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

Council had implemented inclining block tariffs in 2012/2013 and the service is cost reflective.

It's recommended that sanitation tariffs be increased by 6% for the 2013/2014 financial year,

1.6 Conditional Grants transferred in terms of DORA

The following allocations in terms of the Division of Revenue Act are allocated to council for the three financial years in terms of the Act.

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions.

GT484 Merafong City - Supporting Table SA18 Transfers and grant receipts							
Description	2010/11	Current Year 2011/12			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
RECEIPTS:							
Operating Transfers and Grants							
National Government:	169.754	188.346	188.346	188.346	185.034	178.277	169.755
Local Government Equitable Share	167.954	185.846	185.846	185.846	181.074	175.743	167.138
Finance Management	1.000	1.500	1.500	1.500	1.550	1.600	1.650
Municipal Systems Improvement	800	1.000	1.000	1.000	890	934	967
EPWP Incentive					1.520		
Provincial Government:	17.533	118.277	173.424	173.424	150.002	6.650	6.750
Housing	17.533	118.277	173.424	173.424	145.227		
Department of Sports, arts, culture and recreation					4.025	5.900	5.900
Agricultural, Conservation en Environment					750	750	850
District Municipality:	–	–	–	–	–	–	–
HIV Programme							
Total Operating Transfers and Grants	187.287	306.623	361.770	361.770	335.036	184.927	176.505

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, Merafong will experience large changes in their equitable share allocations. To smooth the impact of these changes and give Merafong time to adjust the new allocations it will be phased in over five years.

For municipalities with smaller allocations under the new formula, the phase-in mechanism will measure the difference between the municipality's old and new allocations and will close this gap by 20 per cent each year. This means that in the first year, a municipality will only experience a change equivalent to 20 per cent of the gap between their allocations under the old and the new formulas, in the second year they will experience a 40 per cent change, and so on until in the fifth year their allocation is determined entirely through the new formula.

As can be seen from the table above councils equitable share will decrease over the next three years. This will negatively affect council's ability to render services and reduce backlogs.

2 Expenditure

2.1 Salaries and Allowances

Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

Considering that municipalities will be preparing and finalising their respective 2013/14 MTREF for tabling as per the MFMA prior to the announcement of the final

CPI for the relevant period, municipalities will have to provide for assumed budget growth as it relates to employee related costs.

In this regard municipalities are advised that average CPI for the period November 2011 to October 2012 is 5.74 per cent which compares well to the estimate of 5.7 per cent for 2012 as provided for in the 2012 Medium Term Budget Policy Statement. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

- 2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)
- 2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)
-

Once the final average CPI for the period 1 February 2012 until 31 January 2013 is available municipalities will be a position to adjust their 2013/14 budget and MTREF prior to tabling for consideration and approval to the end of May 2013; it is not envisaged that the actual CPI will be a significant deviation from the guidelines and should therefore not have a detrimental impact on the tabled budget prior to community consultation.

Overtime is an expensive form of remuneration and can easily be abused. Should excessive overtime be found to be legitimate it could be an indication that the organisational structure is insufficiently funded and hence would require funds being rather appropriated against vacancies. Based on the most recent Budget and Benchmark Engagements with the non-delegated municipalities, overtime as a percentage of total remuneration averaged 4.5 per cent.

As a guideline, municipalities are advised that a percentage above 5 per cent would require further investigation; it needs to be noted that this percentage is based on total municipal remuneration and individual functions will differ owing to the nature of the service rendered.

Councils overtime represent 5.5% of its total salary budget and needs to be seriously looked at and reduced,

Additional funding was made available to fund additional vacancies in 2012/2013. In excess of 350 vacancies provided for are not filled as yet.

Council cannot with the existing filled employee component be in a position to execute the capital projects approved by council and rendering normal service delivery functions.

Taken into account the above Council's employee remuneration as a percentage of its total budget is 22.60%, which is well below the norm of 35%. Filling of vacancies must be prioritised.

2.2 <u>Bulk purchases: Electricity</u>

The Eskom price increase of bulk electricity supplied to municipalities will increase by 8 per cent on 1 July 2013. NERSA approved an annual 8 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2013/14 to 2017/18.

NERSA is in the process of determining a guideline increase for municipal electricity tariffs.

They have indicated that they will only be in a position to finalise this guideline by the end of March 2013. Bulk electricity as a cost driver can contribute as much as 75 per cent of municipalities' electricity function, and considering that the average wage increase (a significant cost component of the municipal electricity function) for the 2013/14 Financial Year is 6.85 per cent (5.6 per cent plus 1.25 per cent) municipalities are advised to limit electricity increases to between 7.5 and 8.0 per cent.

Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective to ensure continued financial sustainability.

2.3 Bulk purchases: Water

Rand Water had advised council that they will increase their water tariffs to municipalities by 9.82% from the 1 July 2013.

2.4 Repairs and Maintenance

The renewal of council's assets was the main focus in the 2012/2013 MTREF.

Repairs and maintenance budget have grown by 50% in the 2012/2013 year's budget. Focus was placed this year of renewal of assets.

It was planned that repairs and maintenance must grow by 20% for the next 2 years to ensure that council will extend the life span of the existing assets and not needs to replace them.

Due to the decrease in the equitable share council will not be in a position the increase the budget by 20% but only 6%.

GT484 Merafong City - Supporting Table SA34c Repairs and maintenance expenditure by asset class

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Repairs and maintenance expenditure by Asset Class/Sub-class										
Infrastructure		12.488	14.620	24.433	34.964	34.964	34.964	13.366	15.168	15.570
Infrastructure - Road transport		2.586	3.348	8.116	16.604	16.604	16.604	3.201	3.393	3.597
Roads, Pavements & Bridges		2.586	3.348	8.116	16.604	16.604	16.604	3.201	3.393	3.597
Storm water		–	–		–	–	–			
Infrastructure - Electricity		3.468	2.340	4.280	6.068	6.068	6.068	2.328	2.467	2.615
Generation		–	–		–	–	–			
Transmission & Reticulation		3.468	2.340	4.280	6.068	6.068	6.068	2.328	2.467	2.615
Street Lighting		–	–		–	–	–			
Infrastructure - Water		1.252	2.145	3.001	7.947	7.947	7.947	2.419	3.565	3.778
Dams & Reservoirs		–	–		–	–	–			
Water purification		–	–		–	–	–			
Reticulation		1.252	2.145	3.001	7.947	7.947	7.947	2.419	3.565	3.778
Infrastructure - Sanitation		3.403	5.507	7.439	3.000	3.000	3.000	4.195	4.446	4.713
Reticulation		–	–		–	–	–			
Sewerage purification		3.403	5.507	7.439	3.000	3.000	3.000	4.195	4.446	4.713
Infrastructure - Other		1.779	1.279	1.597	1.344	1.344	1.344	1.223	1.297	867
Waste Management		1.779	1.279	1.597	1.344	1.344	1.344	1.223	1.297	867
Transportation	2	–	–		–	–	–			
Gas		–	–		–	–	–			
Other	3	–	–		–	–	–			
Community		3.646	3.257	2.746	12.819	12.819	12.819	5.246	5.755	6.192
Parks & gardens					3.293	3.293	3.293			
Sportsfields & stadia		1.854	2.140	1.599	–	–	–			
Swimming pools		–	–	199	3.839	3.839	3.839			
Community halls		–	–		1.292	1.292	1.292	4.817	5.314	5.692
Libraries		57	56	82	94	94	94	100	106	158
Recreational facilities		–	–		–	–	–			
Fire, safety & emergency		552	–		–	–	–			
Security and policing		922	879	846	3.812	3.812	3.812	253	254	256
Buses	7	–	–		–	–	–			
Clinics		–	–		–	–	–			
Museums & Art Galleries		–	–		–	–	–			
Cemeteries		150	50	20	52	52	52	77	82	87
Social rental housing	8	110	132		437	437	437			
Other		–	–		–	–	–			
Heritage assets		–	–	–	–	–	–	–	–	–
Buildings										
Other	9									
Investment properties		–	–	–	–	–	–	–	–	–
Housing development										
Other										
Other assets		3.299	4.712	7.562	5.546	5.546	5.546	5.608	5.912	6.221
General vehicles										
Specialised vehicles	10	–	–	–	–	–	–	–	–	–
Plant & equipment		804	1.203	1.288	953	953	953			
Computers - hardware/equipment		–	–		–	–	–			
Furniture and other office equipment		–	–		–	–	–			
Abattoirs		–	–		–	–	–			
Markets		–	–		–	–	–			
Civic Land and Buildings		2.495	3.509	6.274	4.593	4.593	4.593	5.608	5.912	6.221
Other Buildings		–	–		–	–	–			
Other Land		–	–		–	–	–			
Surplus Assets - (Investment or Inventory)		–	–		–	–	–			
Other		–	–		–	–	–			
Agricultural assets		–	–	–	–	–	–	–	–	–
List sub-class										
Biological assets		–	–	–	–	–	–	–	–	–
List sub-class										
Intangibles		–	–	–	–	–	–	–	–	–
Computers - software & programming										
Other *(list sub-class)*										
Total Repairs and Maintenance Expenditure	1	19.433	22.589	34.741	53.329	53.329	53.329	24.220	26.835	27.983
Specialised vehicles		–	–	–	–	–	–	–	–	–
Refuse										
Fire										
Conservancy										
Ambulances										
R&M as a % of PPE		*0.8%*	*0.9%*	*1.2%*	*1.9%*	*1.7%*	*1.7%*	*0.8%*	*0.8%*	*0.8%*
R&M as % Operating Expenditure		*3.2%*	*2.9%*	*4.3%*	*3.9%*	*3.6%*	*3.6%*	*1.6%*	*2.0%*	*2.1%*

2.5 Transfer to Provision for bad debt

The large increases and changes in property rates, and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment were counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council's average payment levels for the past ten months were 85%. Council budgeted for a payment level of 87.50% for the financial year.

The department had commenced with an outreach program to promote the payment of services. Council had commenced with serious credit control actions in all areas of Merafong. This was communicated to the community and ward committees during the budget consultation program.

A revenue enhancement strategy was developed and the roll out plan has commenced. A no tolerance approach in terms of council's credit control policy will be enforced on non-indigent defaulters.

Council will have to consider establish an in house debt collection section. Where normal credit control actions are not effective council will have to make use of alternative mechanisms to collect its debt. Defaulters of assessment rates by property owners and farmers must be addressed.

Council had commenced with the procurement process to procure pre-paid water meters. It's critical that the project be rolled out in 2013/2014.

3 Capital Budget 2013/2014

3.1 Conditional Grants transferred in terms of DORA

The following allocations in terms of the Division of Revenue Act are allocated to council for the three financial years in terms of the Act to execute capital programs.

GT484 Merafong City - Supporting Table SA18 Transfers and grant receipts							
Description	2010/11	Current Year 2011/12			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
RECEIPTS:							
Capital Transfers and Grants							
National Government:	73.887	89.163	89.163	89.163	93.245	82.929	82.838
Municipal Infrastructure Grant (MIG)	61.137	74.163	74.163	74.163	70.410	57.929	57.838
National Electrification Programme	8.400	15.000	15.000	15.000	22.835	25.000	25.000
Department of Sports, arts, culture and recreation	4.350						
Provincial Government:	182.551	–	30.363	30.363	96.046	–	–
Human Settlement Grant	182.551		30.363	30.363	96.046		
District Municipality:	6.937	–	314	314	–	–	–
Water	6.937		314	314			
Total Capital Transfers and Grants	263.375	89.163	119.840	119.840	189.291	82.929	82.838

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, Merafong will experience large changes in their equitable share allocations. To smooth the impact of these changes and give Merafong time to adjust the new allocations it will be phased in over five years.

For municipalities with smaller allocations under the new formula, the phase-in mechanism will measure the difference between the municipality's old and new allocations and will close this gap by 20 per cent each year. This means that in the first year, a municipality will only experience a change equivalent to 20 per cent of the gap between their allocations under the old and the new formulas, in the second year they will experience a 40 per cent change, and so on until in the fifth year their allocation is determined entirely through the new formula.

As can be seen from the table above the Municipal Infrastructure Grant will decrease over the next three years.

This will negatively affect council's ability to render services and reduce backlogs. Programs planned for the outer years had to be cut back and reprioritised.

Council had received R96.046 Million from Human Settlement Grant for the ROD requirements for Khutsong Ext 1,2 and 3.

In addition R22.835 Million was received from the National Electrification Programme for the electrification of the second phase of Khutsong Ext 1,2 and 3.

3.2 External loans

Council could not secure grants to implement LED projects and bulk supply electricity projects. Council will have to secure R62.9 Million in 2013/2014 and R45 Million in 2014/2015 and R84 Million in 2015/2016 to finance the projects.

4 Tariff Implications

The abnormal increases in tariffs by Escom and Rand Water will result that tariff increases will be between 7% and 8.4% for large consumers.

GT484 Merafong City - Supporting Table SA14 Household bills							
Description	Ref	2011/12			2013/14 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Rand/cent							
Monthly Account for Household - 'Middle Income Range'	1						
Rates and services charges:							
Property rates		617.68	476.25	476.25	507.21	537.64	569.90
Electricity: Basic levy		43.44	48.23	48.23	52.09	56.26	59.64
Electricity: Consumption		938.15	1.041.85	953.11	1.036.50	1.119.42	1.208.98
Water: Basic levy							
Water: Consumption		211.50	239.15	258.56	284.72	301.80	319.91
Sanitation		100.50	128.00	107.25	114.75	121.64	128.93
Refuse removal		75.00	82.50	82.50	90.00	95.40	101.12
Other							
sub-total		1.986.27	2.015.98	1.925.90	2.085.27	2.232.16	2.388.47
VAT on Services		179.28	201.50	201.50	220.93	237.23	254.60
Total large household bill:		2.165.56	2.217.47	2.127.39	2.306.20	2.469.39	2.643.08
% increase/-decrease		–	–	(4.1%)	8.4%	7.1%	7.0%
Monthly Account for Household - 'Affordable Range'	2						
Rates and services charges:							
Property rates		437.34	326.25	326.25	347.46	368.30	390.40
Electricity: Basic levy		43.44	48.23	48.23	52.09	56.26	59.64
Electricity: Consumption		434.65	478.04	434.41	465.93	503.21	543.47
Water: Basic levy							
Water: Consumption		171.15	193.35	193.35	212.34	225.08	238.58
Sanitation		83.75	109.75	89.25	95.50	101.23	107.30
Refuse removal		75.00	82.50	82.50	90.00	95.40	101.12
Other							
sub-total		1.245.33	1.238.13	1.173.99	1.263.32	1.349.48	1.440.51
VAT on Services		104.79	113.16	113.16	128.22	137.36	147.02
Total small household bill:		1.350.12	1.351.29	1.287.15	1.391.54	1.486.84	1.587.53
% increase/-decrease		–	–	(4.7%)	8.1%	6.8%	6.8%
Monthly Account for Household - 'Indigent' Household receiving free basic services	3						
Rates and services charges:							
Property rates		256.99	176.25	176.25	187.71	198.97	210.91
Electricity: Basic levy		43.44	48.23	48.23	52.09	56.26	59.64
Electricity: Consumption		209.15	227.02	238.62	255.32	275.75	297.81
Water: Basic levy							
Water: Consumption		84.42	94.97	94.97	104.30	110.56	117.19
Sanitation		67.00	91.50	49.70	53.20	56.39	59.78
Refuse removal		75.00	82.50	82.50	90.00	95.40	101.12
Other							
sub-total		736.00	720.48	690.28	742.62	793.33	846.44
VAT on Services		67.06	76.19	76.19	77.69	83.21	88.97
Total small household bill:		803.07	796.67	766.47	820.31	876.54	935.42
% increase/-decrease		–	–	(3.8%)	7.0%	6.9%	6.7%

References

1. Use as basis property value of R700 000, 1 000 kWh electricity and 30kl water

2. Use as basis property value of R500 000 and R700 000, 500 kWh electricity and 25kl water

3. Use as basis property value of R 300 000, 350kWh electricity and 20kl water (50 kWh electricity and 6 kl water free)

5 Conclusion

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability

The large increases and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment are counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council was advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

- 2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)
- 2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, Merafong will experience large changes in their equitable share and MIG allocations.

Council cannot with the existing filled employee component be in a position to execute the capital projects approved by council and rendering normal service delivery functions

It was planned that repairs and maintenance must grow by 20% for the next 2 years to ensure that council will extend the life span of the existing assets and not needs to replace them.

Due to the decrease in the equitable share council will not be in a position the increase the budget by 20% but only 6%.

The effective implementation of the credit control policy of council remains a challenge. Credit control will be rolled out to all areas within Merafong.

Council will have to consider establish an in house debt collection section. Where normal credit control actions are not effective council will have to make use of alternative mechanisms to collect its debt. Defaulters of assessment rates by property owners and farmers must be addressed.

Council had commenced with the procurement process to procure pre-paid water meters. It's critical that the project be rolled out in 2013/2014.

Municipal Infrastructure Grant will decrease over the next three years.

This will negatively affect council's ability to render services and reduce backlogs. Programs planned for the outer years had to be cut back and reprioritised.

Council had received R96.046 Million from Human Settlement Grant for the ROD requirements for Khutsong Ext 1,2 and 3.

In addition R22.835 Million was received from the National Electrification Programme for the electrification of the second phase of Khutsong Ext 1,2 and 3.

Council could not secure grants to implement LED projects and bulk supply electricity projects. Council will have to secure R62.9 Million in 2013/2014 and R45 Million in 2014/2015 and R84 Million in 2015/2016 to finance the projects.

CHAPTER 2

BUDGET TABLES

CHAPTER 3

OVERVIEW OF ANNUAL BUDGET PROCESS

The Executive Mayor tabled the Key Deadlines in terms of section 21(1) (b) during August 2012.

Subsequent to the above a budget steering committee was established in terms of Regulation 393. The committee is chaired by the portfolio head of finance.

A medium term expenditure framework was compiled, discussed and recommended by the Budget steering Committee during February 2012.

The needs of the communities, backlogs as identified by the departments, priorities as identified in the Municipal strategic review was the basis of the medium term expenditure framework for 2013/2014 to 2015/2016.

The budget was tabled to council during March 2013.

During the tabling of the budget the council tabled the consultative process where the budget was taken to the communities for their inputs.

Inputs from the community were taken into account to finalise the budget.

CHAPTER 4

Alignment of Annual Budget with Integrated Development Plan

The strategy review was conducted at a three-day strategic review session held on 4 – 6 December at Misty Hills and on 19 and 20 February 2013 in house. Members of the mayoral committee, councillors, senior management and labour representatives attended the workshop.

The purpose of the workshop was the Revision of Strategic Planning 2012 – 2016 and the Performance targets and subsequent strategies. The approach followed was output-orientated and participative by nature. In order to achieve the highest degree of consensus, information technology was utilised to achieve the highest quality information in the shortest time.

The purpose of the strategic planning session was to achieve the following outputs:

- Business Definition
  - Vision
  - Mission
  - Strategic goals and objectives framework
  - Core business values
  - Stakeholder framework
- SWOT Analysis
- Targets
- Strategic Action Plan
- High level organisational design

Linkage with national, provincial and government manifesto priorities.

The approach followed was output-orientated and participative by nature. The input of various key stakeholders, administrative and political was gathered and documented in a facilitated workshop approach.

The needs of the communities, backlogs as identified by the departments, priorities as identified in the Strategic Review process was the basis of the medium term expenditure framework for 2013/2014 to 2015/2016.

The IDP outlines Various **PLANS**; which respond to Merafong vision and values; thereby directing strategic focus areas; key programmes and strategic projects that link to the Council’s capital and operating budget.

CHAPTER 5

Measurable Performance Objectives and Indicators

Measures of financial performance

	Merafong Target	Benchmark
Current Ratio	1:1	2:1
Outstanding Debtors to Revenue	12%	8.3%
Creditors System Efficiency	30 Days	30 Days
Employee costs	35%	35%
Annual Collection Rate	87.5%	90%
Total Debt to Annual Operating Revenue	45%	45%
Cost coverage	1	0.8

Description of Financial Indicator	Basis of Calculation	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Current Ratio	Current assets/current liabilities	1.0	1.0	0.9	0.7	0.7
Creditors System Efficiency	% of Creditors Paid Within Terms (with in MFMA' s 65(e))	30 Days	30 Days	30 Days	30 Days	30 Days
Annual Collection Rate	Last 12 MThs Receipts/Last 12 Mths Billing	85.28%	85.10%	87.5%	87.5%	87.5%
Total Debt to Annual Operating Revenue	Total outstanding service debtors/annual revenue received for services	37.7%	24.2%	22.6%	21.1%	19.6%
Employee costs	Employee costs/(Total Revenue - capital revenue)	31.8%	25.6%	26.8%	30.6%	30.8%

Cost coverage	(Available cash + Investments)/ monthly fixed operational expenditure	5.4	1.3	1.3	0.8	1.2

Current ratio

Current ratio measures the ability of the Municipality to pay its current liabilities out of the current assets. The industry usually looks for a ratio of 2:1, however the acceptable current ratio is1:1 for municipalities.

The current ratio is 1:1 which means that the Municipality will be able to meet its short term obligation if the trend continues..

Outstanding debtors to Revenue

This ratio gives an indication of how liquid customer's debtors are. The benchmark is 8.3%. The benchmark is exceeded. The municipality needs to look at ways of improving their credit control. The average for the Municipality for the past two years was 37.7% and 24.2% respectively.

Creditors System Efficiency

The ratio gives an indication of average creditor's payment period. The benchmark is 30 Days and is a contravention of Section 65(2) (e) if creditors are not paid in 30 days

Employee costs

The ratio indicates a percentage of salary costs to total expenditure and this ratio could illustrate the risk of salary costs being unmanageable.

Employee costs totalled 22.6% of the total expenditure for the 2012/13 financial year. This ratio is maintained within the limit of 35 %.

Cost coverage

This ratio indicates the availability of cash plus short term investments to cover the monthly fixed operating expenditure.

GT484 Merafong City - Table A7 Budgeted Cash Flows

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Ratepayers and other		594.133	443.327	523.550	749.879	747.996	747.996	747.996	798.560	957.698	937.404
Government - operating	1	215.152	330.100	243.016	312.195	368.072	368.072	368.072	335.036	184.927	176.505
Government - capital	1	125.610	95.323	185.410	246.687	249.371	249.371	249.371	243.692	161.805	82.838
Interest		22.617	27.188	31.898	16.942	16.942	16.942	16.942	16.942	17.959	19.036
Dividends					–	–	–	–			
Payments											
Suppliers and employees		(856.574)	(736.655)	(833.001)	(945.781)	(1.319.308)	(1.319.308)	(1.301.553)	(788.551)	(1.140.022)	(1.017.273)
Finance charges		(11.419)	(8.156)	(5.174)	(15.797)	(15.797)	(15.797)	(15.797)	(5.146)	(5.146)	(5.146)
Transfers and Grants	1										
NET CASH FROM/(USED) OPERATING ACTIVITIES		89.519	151.127	145.699	364.125	47.276	47.276	65.031	600.534	177.221	193.365
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		2.226	8.990	2.118	–	–	–	–	3.000	3.180	3.371
Decrease (Increase) in non-current debtors				1.171	–	–	–	–			
Decrease (increase) other non-current receivables					–	–	–	–			
Decrease (increase) in non-current investments		(526)	666	(468)	471	471	471	471	471	471	471
Payments											
Capital assets		(141.357)	(114.496)	(108.399)	(320.913)	(249.371)	(249.371)	(249.371)	(354.953)	(313.884)	(216.686)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(139.656)	(104.839)	(105.577)	(320.442)	(248.899)	(248.899)	(248.899)	(351.482)	(310.232)	(212.844)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans					–	–	–	–			
Borrowing long term/refinancing		408			22.000	22.000	22.000	22.000	62.906	45.000	84.000
Increase (decrease) in consumer deposits					410	410	410	410			
Payments											
Repayment of borrowing		(11.150)	(12.840)	(13.895)	(10.651)	(10.651)	(10.651)	(10.651)	(10.651)	(10.651)	(10.651)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(10.742)	(12.840)	(13.895)	11.759	11.759	11.759	11.759	52.255	34.349	73.349
NET INCREASE/ (DECREASE) IN CASH HELD		(60.879)	33.447	26.227	55.441	(189.865)	(189.865)	(172.110)	301.307	(98.663)	53.869
Cash/cash equivalents at the year begin:	2	306.370	245.490	278.937	278.937	305.164	305.164	305.164	133.054	434.361	335.698
Cash/cash equivalents at the year end:	2	245.490	278.937	305.164	334.379	115.300	115.300	133.054	434.361	335.698	389.567

Council has sufficient cash to cover current liabilities.

CHAPTER 6

Overview of Budget related policies

Budgeting is central to the process of prioritizing for service delivery and the management of the functions of Council. The Municipality's budgeting process is guided and governed by relevant legislation and budget related polices.

Council had in terms of Regulation 7 and 8 of Local Government Gazette 32141 reviewed the budget related policies and bylaws for Merafong Local Council.

The following policies are amended or are new policies that need to be adopted by Council.

The policies were submitted to Management for their inputs. The policies were work shopped with council and were work shopped with the community during the budget consultation process.

The following are the key policies that affect or are affected by the annual budget that needs to be reviewed and amended if necessary.

Tariff Policy

The Municipal Systems Act, Act 32 of 2000, requires a municipality to have a tariff determination policy.

The challenge in setting tariffs lies in striking a balance between maintaining financial sustainability of the relevant departments and entities (and so sustainability of service provision) and ensuring affordability of those services by consumers.

The Municipality Tariff Policy provides a broad framework within which Council can determine fair, transparent and affordable service charges that also promote sustainability of service provision.

This policy is based on principles that address the social, economic and financial imperatives that the process of tariff setting should take account of. In addition to the policy, and for operational purposes, tariff setting methodologies have been developed for the various departments and entities involved in trading services. The methodology specifies the procedure that departments and municipal entities should follow in determining their tariff increases:

Property Rates Policy

The Municipality has revised its Rates Policy as per the legislative requirements. The new policy provides that properties be rated based on the value of their land and improvements. Sectional title owners will also be drawn into the rates base. A new valuation roll is accordingly in place. The first Rates Policy and General Valuation Roll in terms of the Municipal Property Rates Act (MPRA) was implemented by the Municipality on the 01st July 2008.

The policy is designed to ensure equitable treatment by Council in the levying of rates on property owners, including owners under sectional title, as well as other persons who may become liable for the payment of rates. This will affect the rates payable by the Municipality's property owners, and ultimately impact on the Municipality's own revenue stream.

Credit Control and Debt Collections Policy

The Municipalities Credit Control and Debt Collection Policy provides the procedures and mechanisms for credit control and for the collection of debts. The primary objective of this policy is to ensure that all monies due and payable to the Municipality in respect of rates, fees for services, surcharges on such fees, charges, tariffs, interest which has accrued on any amounts due and payable in respect of the foregoing and any collection charges are collected efficiently and promptly.

Indigent and Free Basic Services Subsidies Policy

Council had adopt an Indigent and Free Basic Services Subsidy Policy, which embodies and provide procedures and guidelines for the subsidization of basic services and tariff charges to indigent households in its municipal area.

The object of the Indigent and Free Basic Services Subsidy Policy is to ensure:

(a) The provision of basic services to the community in a sustainable manner within the financial and administrative capacity of the Municipality of the Council; and

(b) The provision of procedures and guidelines for the subsidisation of basic service charges to indigent households.

Debt Write Off Policy

This policy serves to assist management and officials of the municipality to implement and maintain consistent, efficient and effective bad debts management principles. This policy will also assist management to run the municipality in a cost effective manner and yet achieving high levels of revenue collection. The policy also seeks to mitigate the risk of fraudulent writing off of fictitious bad debts.

PURPOSE

- To ensure that bad debt write-offs are authorized at appropriate levels.
- To ensure that only bona fide bad debts are written off.
- To ensure firmness in writing off bad debts.
- To ensure that debt collection is effective and efficient.
- To ensure that bad debts are kept within reasonable proportions.
- To ensure that the estimated loss resulting from bad debts is provided for during the same period that the income to which it is related is earned, and
- To ensure that the outstanding debtors appear in the monthly balance sheet at net realizable value, since the provision is deducted from the gross amount of the debtors.

Supply Chain Management Policy

Municipalities are required in terms of section 111 of the MFMA to have a supply chain management policy.

The Municipality has an approved Supply Chain Management Policy, within the framework of the relevant legislation and regulations. The policy ascribes to the following principles:

A procurement system which is fair, equitable, transparent, competitive and cost- effective in terms of Section 217 of the Constitution of South Africa No 108 of 1996;

- As enshrined in Chapter 11 of the Municipal Finance Management Act and its regulations;
- Best practices in supply chain management;
- Uniformity in supply chain management systems between organs of state in all spheres;
- Broad Based Black Economic Empowerment.

Additional Policies

- Asset Management Policy
- Cash Management, Disposal and Borrowing Policy
- Funding and Reserve Policy

Bylaws

- Property Rates
- Tariffs
- Credit Control and Collections
- Indigent and Free Basic Services Subsidies

CHAPTER 7

Overview of Budget Assumptions

The 2013/14 – 2015/16 Medium Term Budget has been prepared within a highly volatile and highly uncertain economic environment, making the budgeting process even more challenging.

Drastic changes have occurred within the global and domestic economy in the past two years, and these changes had a profound impact on the assumptions drawn to prepare the budget.

The following aspects were taken into account in the preparation of the 2013/14– 2015/16 Medium Term Budget.

<u>National Outcomes</u>

The 2013 Budget Review notes that spending plans outlined in the 2013 Budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, while taking account of the constrained fiscal environment. South Africa's economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget. GDP growth reached 2.5 per cent in 2012 and is expected to grow at 2.7 per cent in 2013, rising to 3.8 per cent in 2015. Inflation has remained moderate, with consumer prices rising by 5.7 per cent in 2012 and projected to increase by an average of 5.5 per cent a year over the period ahead.

Municipalities are reminded that the economic outlook is, however constrained by a difficult global environment and domestic restructuring. Due to lower-than-projected economic growth and revenue underperformance, government has adjusted the spending plans presented in the 2012 Medium Term Budget Policy Statement. Savings have been made at every level of government to moderate the fiscal deficit while supporting economic recovery.

Expenditure has been trimmed in areas that will not adversely affect service delivery, or where programmes are underperforming. Within this economic climate the budget framework still provides for average annual real growth in consolidated government spending of 2.3 per cent over the MTEF period.

The medium-term expenditure framework (MTEF) uses the National Development Plan (NDP) as a point of departure. The NDP sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality by 2030. The NDP supported by the New Growth Path and other programmes provides a platform to look beyond the current constraints to the transformation imperatives over the next 20 to 30 years. The NDP emphasises the need to lower the cost of living for households and reduce the cost of doing business for small and emerging enterprise. These objectives need to take into account fiscal sustainability, which ensures that progress will not be interrupted or reversed. This will also entail shifting the composition of spending from consumption towards capital investment.

"The NDP reminds us that South Africa needs to invest in a strong network of economic infrastructure designed to support the county's medium- and long-term economic and social objectives".

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability

The large increases and the change of the local economic conditions such as the down turn in the property market, trends in household incomes and unemployment are counterproductive, resulting in higher levels of non-payment and increased bad debts.

Council was advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

- 2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)
- 2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, Merafong will experience large changes in their equitable share and MIG allocations.

Council cannot with the existing filled employee component be in a position to execute the capital projects approved by council and rendering normal service delivery functions

It was planned that repairs and maintenance must grow by 20% for the next 2 years to ensure that council will extend the life span of the existing assets and not needs to replace them.

Due to the decrease in the equitable share council will not be in a position the increase the budget by 20% but only 6%.

The effective implementation of the credit control policy of council remains a challenge. Credit control will be rolled out to all areas within Merafong.

Council will have to consider establish an in house debt collection section. Where normal credit control actions are not effective council will have to make use of alternative mechanisms to collect its debt. Defaulters of assessment rates by property owners and farmers must be addressed.

Council had commenced with the procurement process to procure pre-paid water meters. It's critical that the project be rolled out in 2013/2014.

Municipal Infrastructure Grant will decrease over the next three years.

This will negatively affect council's ability to render services and reduce backlogs. Programs planned for the outer years had to be cut back and reprioritised.

Council had received R96.046 Million from Human Settlement Grant for the ROD requirements for Khutsong Ext 1,2 and 3.

In addition R22.835 Million was received from the National Electrification Programme for the electrification of the second phase of Khutsong Ext 1,2 and 3.

Headline inflation forecasts

Municipalities must take the following inflation forecasts into consideration when preparing their budgets for 2012/13 and MTREF

Fiscal year	2010/11	2011/12	2012/13	2012/13	2014/15	2015/16
Actual			Estimate	Forecast		
Real GDP growth	3.4	3.1	2.5	3.0	3.6	3.8
CPI inflation	3.8	5.6	5.6	5.6	5.4	5.4

Source: Budget Review 2013
Note that the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation

Summary of budget assumptions

For the 2013/2014 financial year the Council, from the outset, based the guideline on the growth rates on 6% of the original budgeted amounts submitted to National Treasury for the 2012/2013 financial year. This was in line with the Reserve Banks inflation targets. However, during the 2013/2014 budgeting process, the main objective of the Council was to adhere to the prerequisite from National Treasury that Municipalities must pass budgets that are balanced and cash funded.

Planned Financing

Operational Budget for the 2013/2014 to 2015/2016 Financial Years

The Operational Budget for the 2013/2014 financial years was, to a certain extent, prepared on the zero-base principle. Each line item was compiled from current financial information.

In terms of the multi-year budget process the projections for the 2014/2015 to 2015/2016 financial years have been prepared on incremental bases, with adjustments for known variances.

The growth guidelines, which are in line with the Reserve Banks inflation targets, were used. Growth limits of 6% and 6% were used for the 2014/2015 and 2015/2016 budgets respectively where applicable.

The table below gives a summary of the assumptions used to prepare this medium term budget, also showing changes in these assumptions from the previous year:

Indicator	2013/2014	2014/2015	2015/2016
CPI Inflation	5.6	5.4	5.4
Electricity Bulk Purchases	8%	8%	8%
Water Bulk Purchases	9.82%	6%	6%
Salary Increases	6.95%	6.5%	6%

Repairs and Maintenance	6%	6%	6%
Tariff Increases			
Electricity	8%	8%	8%
Water	10%	6%	6%
Refuse	9%	9%	9%
Sewerage	10%	6%	6%
Assessment Rates	6.5%	6%	6%

CHAPTER 8

Overview of Budget Funding

The long-term financial plan is part of the on-going financial planning and medium-term budgeting processes. The long-term financial plan aims to ensure that the Municipality is in a sound financial condition and can finance services on a sustainable basis on the long-term. The medium-term budget represents a detailed three-year operating and capital budget that enables the Municipality to meet its operational and strategic objectives for the three years and in the outer years.

Financial sustainability means that future generations will not be burdened with paying for services that today's taxpayers enjoy. While some expenses do not have to be paid immediately, the Municipality still must have the ability to pay them in the future.

The long-term financial plan was reviewed and updated as part of the budget and IDP cycle for 2013/2014. The long-term financial plan uses economic, financial, policy assumptions and the expenditure outlook to project expenses, revenue and changes in the balance sheet. At this stage the first three years agrees with the tabled budget and the outer years are projected.

Level of capital spending

The appropriate levels of capital expenditure and borrowing are based on the principles of affordability, prudence and sustainability (debt ratios and the impact or return of the capital investment on the operating budget).

Prudential Indicators

- Debt to equity
- Debt to revenue
- Liquidity (Current Ratio)
- Operating surplus

Capital investment programme

The Council tables a capital budget totalling R354.923 Million for the 2013/2014 financial year. The table bellows indicates the projections for the current year, outer years together with the past performances.

GT484 Merafong City - Table A9 Asset Management

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
CAPITAL EXPENDITURE										
Total New Assets	1	142.017	114.496	108.418	323.563	314.116	314.116	336.673	276.814	199.786
Infrastructure - Road transport		30.878	33.848	30.418	148.734	125.055	125.055	224.323	125.316	2.619
Infrastructure - Electricity		4.013	16.308	6.987	39.050	21.050	21.050	56.485	108.455	117.100
Infrastructure - Water		68.747	13.855	19.853	51.878	67.364	67.364	2.642	3.200	11.240
Infrastructure - Sanitation		17.652	5.146	31.575	15.177	24.159	24.159	16.885	25.500	21.500
Infrastructure - Other		3.397	–	780	3.254	1.650	1.650	4.557	–	18.206
Infrastructure		*124.687*	*69.157*	*89.613*	*258.093*	*239.278*	*239.278*	*304.892*	*262.471*	*170.666*
Community		4.516	16.586	10.183	21.297	18.261	18.261	8.500	9.812	29.120
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	10.083	28.072	8.603	44.174	56.577	56.577	22.706	4.531	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		2.731	680	19	–	–	–	575	–	–
Total Renewal of Existing Assets	2	–	–	–	–	–	–	18.280	37.070	16.900
Infrastructure - Road transport		–	–	–	–	–	–	5.000	15.000	10.000
Infrastructure - Electricity		–	–	–	–	–	–	1.500	2.100	2.100
Infrastructure - Water		–	–	–	–	–	–	500	1.300	800
Infrastructure - Sanitation		–	–	–	–	–	–	–	–	–
Infrastructure - Other		–	–	–	–	–	–	8.500	7.500	4.000
Infrastructure		–	–	–	–	–	–	*15.500*	*25.900*	*16.900*
Community		–	–	–	–	–	–	780	750	–
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	–	–	–	–	–	–	2.000	10.420	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		–	–	–	–	–	–	–	–	–
Total Capital Expenditure	4									
Infrastructure - Road transport		30.878	33.848	30.418	148.734	125.055	125.055	229.323	140.316	12.619
Infrastructure - Electricity		4.013	16.308	6.987	39.050	21.050	21.050	57.985	110.555	119.200
Infrastructure - Water		68.747	13.855	19.853	51.878	67.364	67.364	3.142	4.500	12.040
Infrastructure - Sanitation		17.652	5.146	31.575	15.177	24.159	24.159	16.885	25.500	21.500
Infrastructure - Other		3.397	–	780	3.254	1.650	1.650	13.057	–	18.206
Infrastructure		*124.687*	*69.157*	*89.613*	*258.093*	*239.278*	*239.278*	*320.392*	*280.871*	*183.566*
Community		4.516	16.586	10.183	21.297	18.261	18.261	9.280	10.562	29.120
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets		10.083	28.072	8.603	44.174	56.577	56.577	24.706	14.951	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		2.731	680	19	–	–	–	575	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	2	142.017	114.496	108.418	323.563	314.116	314.116	354.953	306.384	212.686
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Infrastructure - Road transport		1.368.076	1.319.788	1.317.535	1.495.231	1.488.433	1.488.433	1.666.286	1.754.104	1.713.174
Infrastructure - Electricity		297.881	315.657	344.850	407.458	397.964	397.964	444.250	542.871	649.899
Infrastructure - Water		180.448	198.641	280.962	255.550	255.550	255.550	245.578	236.702	235.098
Infrastructure - Sanitation		87.735	111.352	279.306	131.155	131.155	131.155	144.445	166.279	184.040
Infrastructure - Other		468.600	495.158	394.538	489.815	489.815	489.815	500.067	497.207	512.495
Infrastructure		*2.402.739*	*2.440.596*	*2.617.190*	*2.779.208*	*2.762.917*	*2.762.917*	*3.000.627*	*3.197.163*	*3.294.707*
Community		8.674	8.813	153.808	14.982	11.634	11.634	16.248	22.051	46.318
Heritage assets		43	43	43	43	43	43	43	43	43
Investment properties		–	–	–	–	–	–	–	–	–
Other assets		31.931	19.112	16.906	65.800	51.304	56.624	61.576	56.378	35.827
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		3.579	2.070	1.217	2.070	2.070	2.070	3.245	3.245	3.245
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	2.443.387	2.468.564	2.787.946	2.860.033	2.825.896	2.831.217	3.078.494	3.275.635	3.376.894
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		18.531	19.610	33.972	19.186	28.680	28.680	30.780	32.922	35.107
Repairs and Maintenance by Asset Class	3	19.433	22.589	34.741	53.329	53.329	53.329	24.220	26.835	27.983
Infrastructure - Road transport		2.586	3.348	8.116	16.604	16.604	16.604	3.201	3.393	3.597
Infrastructure - Electricity		3.468	2.340	4.280	6.068	6.068	6.068	2.328	2.467	2.615
Infrastructure - Water		1.252	2.145	3.001	7.947	7.947	7.947	2.419	3.565	3.778
Infrastructure - Sanitation		3.403	5.507	7.439	3.000	3.000	3.000	4.195	4.446	4.713
Infrastructure - Other		1.779	1.279	1.597	1.344	1.344	1.344	1.223	1.297	867
Infrastructure		*12.488*	*14.620*	*24.433*	*34.964*	*34.964*	*34.964*	*13.366*	*15.168*	*15.570*
Community		3.646	3.257	2.746	12.819	12.819	12.819	5.246	5.755	6.192
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6, 7	3.299	4.712	7.562	5.546	5.546	5.546	5.608	5.912	6.221
TOTAL EXPENDITURE OTHER ITEMS		37.964	42.199	68.713	72.515	82.009	82.009	55.000	59.757	63.090
Renewal of Existing Assets as % of total capex		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*5.6%*	*11.8%*	*7.8%*
Renewal of Existing Assets as % of deprecn"		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*17.1%*	*33.9%*	*15.2%*
R&M as a % of PPE		*0.8%*	*0.9%*	*1.2%*	*1.9%*	*1.7%*	*1.7%*	*0.8%*	*0.8%*	*0.8%*
Renewal and R&M as a % of PPE		*1.0%*	*1.0%*	*1.0%*	*2.0%*	*2.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*

Funding sources

The table below reflects the projected capital per funding source for the next three years

GT484 Merafong City - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

/ote Descriptio	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Funded by:											
National Government		125.610	95.323	102.074	246.687	251.193	251.193	251.193	243.692	158.909	79.946
Provincial Government		–	–		–	–	–	–			
District Municipality		–	–		–	314	314	314			
Other transfers and grants					–	–	–	–			
Transfers rec	4	125.610	95.323	102.074	246.687	251.507	251.507	251.507	243.692	158.909	79.946
Public contr	5	–	–	888	5.000	–	–	–			
Borrowing	6	–	2.508	130	22.000	12.328	12.328	12.328	62.906	45.000	84.000
Internally generated funds		16.407	16.664	5.307	49.787	50.280	50.280	50.280	48.355	109.975	52.740
Total Capital F	7	142.017	114.496	108.399	323.473	314.116	314.116	314.116	354.953	313.884	216.686

The capital expenditure will be funded from a combination of loans, surplus cash and grants and donations.

Impact on operating expenditure

Capital spending also drives the operating budget both directly and indirectly. It is expected that the envisaged increase in capital spending will result in:

- Increased depreciation costs (average between 10% - 15% increase over the next three years).
- Increased debt servicing costs.
- Increased operational expenditure especially in the medium to long term.
- Provision will be made in the operating account to ensure that assets are maintained at a level adequate to protect the capital investments and to minimize future maintenance and replacements.

Investments

Investments for the Municipality are done in accordance with and adherence to the Municipal Investment Regulation of the MFMA, Municipality's Investment Policy and other relevant legislation.

Cash Flow forecasts and liquidity needs by the Municipality provide guidance for the type of investments employed and tenor thereof. The investments are made with primary regard for the risk profile and appetite of the investment, liquidity needs of the Municipality and the return on investments.

GT484 Merafong City - Supporting Table SA15 Investment particulars by type

Investment type R thousand	Ref	2009/10 Audited Outcome	2010/11 Audited Outcome	2011/12 Audited Outcome	Current Year 2012/13 Original Budget	Current Year 2012/13 Adjusted Budget	Current Year 2012/13 Full Year Forecast	2013/14 Medium Term Revenue & Expenditure Framework Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Parent municipality										
Securities - National Government										
Listed Corporate Bonds										
Deposits - Bank		12.569	9.305	9.772	10.247	10.247	10.247	10.715	11.183	11.650
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Municipal Bonds										
Municipality sub-total	1	12.569	9.305	9.772	10.247	10.247	10.247	10.715	11.183	11.650
Entities										
Securities - National Government										
#N/A										
Deposits - Bank										
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Entities sub-total		–	–	–	–	–	–	–	–	–
Consolidated total:		12.569	9.305	9.772	10.247	10.247	10.247	10.715	11.183	11.650

Statement of tariff setting and revenue strategies

Tariff-setting is a pivotal and strategic part of the compilation of any budget. The Council annually reviews its tariffs to ascertain whether they are still capable of producing the required revenue envelope, taking note of the prevailing trends. This process of tariff setting takes place within the framework of the Council tariff policy. The tariff policy is premised on principles of financial sustainability, social considerations as relates to the affordability of services, economic soundness and environmental considerations.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank’s inflation target.

While the municipality is committed to maintaining tariff increases within the forecasted inflation, increases above inflation are applied to some services (mainly major trading services) due to budgetary requirements aimed at sustaining service provision.

The percentage increases of both Eskom and Rand Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, these tariffs are largely outside the control of the Council. Discounting the impact of these price increases in lower consumer tariffs will erode the Council future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilized for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Council is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

For the 2013/14 financial year tariffs increases for the major services were primarily driven by the following broad considerations:

- Political and social considerations;
- Move towards cost reflective tariffs over the medium term to ensure financial, and so service delivery, sustainability- cost recovery will be phased in gradually in consideration of affordability of services;
- Maintaining the Councils infrastructure in good state of repair, mindful of the affordability of services;
- Increase in bulk purchases;
- Capital investment plans;
- Current national electricity constraints;
- Trends in the national and local economy;
- The impact of inflation and other cost increases;

Within this framework the Council has undertaken the tariff setting process relating to service charges as follows:

<u>Assessment Rates</u>

Council had implemented the second valuation roll as determined by the Municipal Property rates Act in the 2012/2013 financial year.

Council received in excess of 3000 objections and is dealt with in terms of the Local Government Municipal Property Rates Act.

A concern is that the objection processes are not concluded. Its envisage that the objections from the mines will only be concluded in the first quarter of 2013/2014.

If there will be changes to the valuation roll it can only be affected in the 2013/14 adjustment budget. The biggest concern is that if there’s going to be substantial reductions in the valuation roll it will affect councils revenue. In terms of the Local Government Municipal Property Rates Act. All changes must be affected from date of the implementation of the valuation roll.

Council had to appoint a legal firm to assist council in the objection process against the mines.

Council will not be able to increase tariffs.

It’s recommended that rates be increased by 6.5% for the 2013/2014 financial year. Councils assessment rates represent 25% of councils own revenue. This is line with the recommended guideline.

The proposed incomes and rebates for the 2013 / 2014 financial year for pensioners are as follows:

Gross Monthly Household Income 2013 / 2014		% Rebate
R 1	R 72 000	100.00%
R 72 001	R 76 000	75.00%
R76 001	R 80 000	50.00%
R80 001	R 84 000	25.00%

Electricity

The Eskom price increase of bulk electricity supplied to municipalities will increase by 8 per cent on 1 July 2013. NERSA approved an annual 8 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2013/14 to 2017/18.

NERSA is in the process of determining a guideline increase for municipal electricity tariffs.

They have indicated that they will only be in a position to finalise this guideline by the end of March 2013. Bulk electricity as a cost driver can contribute as much as 75 per cent of municipalities' electricity function, and considering that the average wage increase (a significant cost component of the municipal electricity function) for the 2013/14 Financial Year is 6.85 per cent (5.6 per cent plus 1.25 per cent) municipalities are advised to limit electricity increases to between 7.5 and 8.0 per cent.

Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective to ensure continued financial sustainability.

It's recommended that council apply to NERSA for an average increase of 8%. The proposed increase variances will be from 5.5% for consumers using 50KwH and less to 10% for consumers using in excess of 600KwH electricity.

Water Sales

Rand Water had advised council that they will increase their water tariffs to municipalities by 9.82% from the 1 July 2013. This is well above the current inflation rate. This will have a negative effect on council's tariffs.

National Treasury are reminding municipalities to review the level and structure of their water and sanitation tariffs carefully with a view to ensuring: Water and sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; Water and sanitation tariffs are structured to protect basic levels of service; and Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

Councils water tariffs are fully cost reflective and do protect basic level of services.

National Treasury advised councils that to mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water 'losses'.

A water loss management strategy is approved and will be implemented during the 2013/2014 financial year. Water used by council own properties are levied and do not form part of unaccounted for water.

Council had implemented block tariffs and is structured to encourage efficient and sustainable consumption.

It's recommended that Water will increase by 10% which is in line with the bulk increases by Rand Water.

Refuse removal

Merafong tariff increases are not In line with the requirement from National Treasury of 6% and will increased by 9%. This is to ensure that solid waste tariffs cover the cost of providing the different components of the service. The service is still not cost reflective and will have to be phased in over three years.

National Treasury prescribed the following: tariffs for solid waste management must take into account that councils must maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites. They further encouraged municipalities to explore alternative methodologies to manage solid waste, including recycling and incineration in plants that use the heat energy to generate electricity.

Council are providing for the rehabilitation of the landfill site and are provided for in the tariffs. A provision for the rehabilitation of the land fill site in terms of GRAP 19 is in place and backed by cash reserves.

Sewerage

Municipalities are reminded to review the level and structure of their sanitation tariffs carefully with a view to ensuring: Sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure; sanitation tariffs are structured to protect basic levels of service; and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

Council had implemented inclining block tariffs in 2012/2013 and the service is cost reflective.

It's recommended that sanitation tariffs be increased by 6% for the 2013/2014 financial year,

Council had received a grant from the department of Water and Forestry's to roll out the strategies in the water loss management strategy.

Budgeted allocations and grants to the municipality

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in

exercising their powers and performing their functions. These allocations are announced annually in the national budget. Transfers to municipalities from national government are supplemented with transfers from provincial government. Further, transfers are also made between district municipalities and local municipalities.

It is important that all these transfers are made transparently, and properly captured in municipalities' budgets. In this regard, regulation 10 of the Municipal Budget and Reporting Regulations provides guidance on when municipalities should reflect a transfer on their budgets.

GT484 Merafong City - Supporting Table SA20 Reconciliation of transfers, grant receipts and unspent funds

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Operating transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year		2.692	2.692							
Current year receipts		119.414	312	169.754	188.346	188.346	188.346	185.034	178.277	169.755
Conditions met - transferred to revenue		119.414	312	169.754	188.346	188.346	188.346	185.034	178.277	169.755
Conditions still to be met - transferred to liabilities		2.692	2.692							
Provincial Government:										
Balance unspent at beginning of the year		35.770	70.077		21.027	21.027	21.027	–		
Current year receipts		70.336	107.194	17.533	118.277	173.424	173.424	150.002	6.650	6.750
Conditions met - transferred to revenue		36.030	156.244	17.533	118.277	173.424	194.451	150.002	6.650	6.750
Conditions still to be met - transferred to liabilities		70.077	21.027		21.027	21.027	–			
District Municipality:										
Balance unspent at beginning of the year		5.695	1.115							
Current year receipts		(1.405)	100							
Conditions met - transferred to revenue		3.175	1.565	–	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities		1.115	(350)							
Other grant providers:										
Balance unspent at beginning of the year		709								
Current year receipts										
Conditions met - transferred to revenue		709	–	–	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities										
Total operating transfers and grants revenue		159.328	158.120	187.287	306.623	361.770	382.797	335.036	184.927	176.505
Total operating transfers and grants - CTBM	2	73.884	23.369	–	21.027	21.027	–	–	–	–
Capital transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year		30.318	36.478	32.601	28.487	28.487	28.487	–		
Current year receipts		31.768	71.052	73.887	89.163	90.937	90.937	93.245	82.929	82.838
Conditions met - transferred to revenue		25.608	74.929	88.829	92.018	93.792	119.424	93.245	82.929	82.838
Conditions still to be met - transferred to liabilities		36.478	32.601	17.659	25.632	25.632				
Provincial Government:										
Balance unspent at beginning of the year		206.091	105.060	184.666	154.669	280.195	154.669	133.277	78.876	
Current year receipts		–	100.000	182.551	–	30.363	89.363	96.046	–	–
Conditions met - transferred to revenue		101.031	20.394	87.021	154.669	155.889	110.754	150.447	78.876	–
Conditions still to be met - transferred to liabilities		105.060	184.666	280.195		154.669	133.277	78.876		
District Municipality:										
Balance unspent at beginning of the year										
Current year receipts				6.937		314	314			
Conditions met - transferred to revenue		–	–	6.937	–	314	314	–	–	–
Conditions still to be met - transferred to liabilities										
Other grant providers:										
Balance unspent at beginning of the year		(1.728)	(699)							
Current year receipts										
Conditions met - transferred to revenue		(1.029)	–	–	–	–	–	–	–	–
Conditions still to be met - transferred to liabilities		(699)	(699)							
Total capital transfers and grants revenue		125.610	95.324	182.787	246.687	249.995	230.492	243.692	161.805	82.838
Total capital transfers and grants - CTBM	2	140.839	216.568	297.855	25.632	180.301	133.277	78.876	–	–
TOTAL TRANSFERS AND GRANTS REVENUE		284.938	253.444	370.074	553.310	611.765	613.289	578.728	346.732	259.343
TOTAL TRANSFERS AND GRANTS - CTBM		214.723	239.937	297.855	46.659	201.328	133.277	78.876	–	–

CHAPTER 9

Councillor Allowances and Employee Benefits

Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

Considering that municipalities will be preparing and finalising their respective 2013/14 MTREF for tabling as per the MFMA prior to the announcement of the final CPI for the relevant period, municipalities will have to provide for assumed budget growth as it relates to employee related costs.

In this regard municipalities are advised that average CPI for the period November 2011 to October 2012 is 5.74 per cent which compares well to the estimate of 5.7 per cent for 2012 as provided for in the 2012 Medium Term Budget Policy Statement. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

- 2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)
- 2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)
-

Once the final average CPI for the period 1 February 2012 until 31 January 2013 is available municipalities will be a position to adjust their 2013/14 budget and MTREF prior to tabling for consideration and approval to the end of May 2013; it is not envisaged that the actual CPI will be a significant deviation from the guidelines and should therefore not have a detrimental impact on the tabled budget prior to community consultation.

Overtime is an expensive form of remuneration and can easily be abused. Should excessive overtime be found to be legitimate it could be an indication that the organisational structure is insufficiently funded and hence would require funds being rather appropriated against vacancies. Based on the most recent Budget and Benchmark Engagements with the non-delegated municipalities, overtime as a percentage of total remuneration averaged 4.5 per cent.

As a guideline, municipalities are advised that a percentage above 5 per cent would require further investigation; it needs to be noted that this percentage is based on total municipal remuneration and individual functions will differ owing to the nature of the service rendered.

Councils overtime represent 5.5% of its total salary budget and needs to be seriously looked at and reduced,

Additional funding was made available to fund additional vacancies in 2012/2013. In excess of 350 vacancies provided for are not filled as yet.

Council cannot with the existing filled employee component be in a position to execute the capital projects approved by council and rendering normal service delivery functions.

Taken into account the above Council's employee remuneration as a percentage of its total budget is 22.60%, which is well below the norm of 35%. Filling of vacancies must be prioritised.

GT484 Merafong City - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
	1	A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)										
Basic Salaries and Wages		9.338	13.779		16.497	16.497	16.497	17.269	18.305	19.404
Pension and UIF Contributions			–							
Medical Aid Contributions			–							
Motor Vehicle Allowance			–							
Cellphone Allowance		666	–							
Housing Allowances			–							
Other benefits and allowances		3.111	–							
Sub Total - Councillors		13.115	13.779	–	16.497	16.497	16.497	17.487	18.536	19.648
% increase	4		5.1%	(100.0%)	–	–	–	6.0%	6.0%	6.0%
Senior Managers of the Municipality	2									
Basic Salaries and Wages		4.405	6.022		8.910	8.910	8.910	9.416	10.392	11.224
Pension and UIF Contributions		–	–		–	–	–	–	–	–
Medical Aid Contributions		–	–		–	–	–	–	–	–
Overtime		–	–		–	–	–	–	–	–
Performance Bonus		–	434		1.069	1.069	1.069	1.155	1.247	1.347
Motor Vehicle Allowance	3	–	–		–	–	–			
Cellphone Allowance	3	–	–		–	–	–			
Housing Allowances	3	–	–		–	–	–			
Other benefits and allowances	3	–	–		–	–	–			
Payments in lieu of leave		–	–		–	–	–			
Long service awards		–	–		–	–	–			
Post-retirement benefit obligations	6	–	–		–	–	–			
Sub Total - Senior Managers of Municipality		4.405	6.456	–	9.979	9.979	9.979	10.571	11.639	12.570
% increase	4		46.6%	(100.0%)	–	–	–	5.9%	10.1%	8.0%
Other Municipal Staff										
Basic Salaries and Wages		130.516	129.148		193.816	193.816	193.816	207.493	220.760	234.005
Pension and UIF Contributions		22.862	27.611		41.420	41.420	41.420	44.299	47.178	50.009
Medical Aid Contributions		12.399	12.759		12.940	17.210	17.210	18.406	19.603	20.779
Overtime		7.763	22.672		17.759	17.759	17.759	18.467	19.505	20.443
Performance Bonus		–	–		659	659	659		–	–
Motor Vehicle Allowance	3	2.930	6.779		8.856	8.856	8.856	8.856	9.432	9.998
Cellphone Allowance	3	17.288	1.215		2.331	2.331	2.331	2.493	2.655	2.814
Housing Allowances	3	–	1.327		1.558	1.558	1.558	1.558	1.659	1.759
Other benefits and allowances	3	19.700	3.571		6.258	8.113	8.113	8.677	9.241	9.796
Payments in lieu of leave		–	–		–	5.551	5.551	5.936	6.322	6.702
Long service awards		–	–		1.050	1.050	1.050	1.123	1.196	1.268
Post-retirement benefit obligations	6	–	–			6.000	6.000	6.000	6.390	6.773
Sub Total - Other Municipal Staff		213.457	205.081	–	286.647	304.323	304.323	323.308	343.941	364.345
% increase	4		(3.9%)	(100.0%)	–	6.2%	–	6.2%	6.4%	5.9%
TOTAL SALARY, ALLOWANCES & BENEFITS		230.977	225.317	–	313.123	330.799	330.799	351.365	374.117	396.564
% increase	4		(2.5%)	(100.0%)	–	5.6%	–	6.2%	6.5%	6.0%
TOTAL MANAGERS AND STAFF	5,7	217.862	211.538	–	296.626	314.302	314.302	333.879	355.581	376.916

Chapter 10

Capital Budget

The Council tables a capital budget totalling R324.923 Million for the 2013/2014 financial year. The table bellows indicates the projections for the current year, outer years together with the past performances.

GT484 Merafong City - Table A9 Asset Management

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
CAPITAL EXPENDITURE										
Total New Assets	1	142.017	114.496	108.418	323.563	314.116	314.116	336.673	276.814	199.786
Infrastructure - Road transport		30.878	33.848	30.418	148.734	125.055	125.055	224.323	125.316	2.619
Infrastructure - Electricity		4.013	16.308	6.987	39.050	21.050	21.050	56.485	108.455	117.100
Infrastructure - Water		68.747	13.855	19.853	51.878	67.364	67.364	2.642	3.200	11.240
Infrastructure - Sanitation		17.652	5.146	31.575	15.177	24.159	24.159	16.885	25.500	21.500
Infrastructure - Other		3.397	–	780	3.254	1.650	1.650	4.557	–	18.206
Infrastructure		*124.687*	*69.157*	*89.613*	*258.093*	*239.278*	*239.278*	*304.892*	*262.471*	*170.666*
Community		4.516	16.586	10.183	21.297	18.261	18.261	8.500	9.812	29.120
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	10.083	28.072	8.603	44.174	56.577	56.577	22.706	4.531	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		2.731	680	19	–	–	–	575	–	–
Total Renewal of Existing Assets	2	–	–	–	–	–	–	18.280	37.070	16.900
Infrastructure - Road transport		–	–	–	–	–	–	5.000	15.000	10.000
Infrastructure - Electricity		–	–	–	–	–	–	1.500	2.100	2.100
Infrastructure - Water		–	–	–	–	–	–	500	1.300	800
Infrastructure - Sanitation		–	–	–	–	–	–	–	–	–
Infrastructure - Other		–	–	–	–	–	–	8.500	7.500	4.000
Infrastructure		–	–	–	–	–	–	*15.500*	*25.900*	*16.900*
Community		–	–	–	–	–	–	780	750	–
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6	–	–	–	–	–	–	2.000	10.420	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		–	–	–	–	–	–	–	–	–
Total Capital Expenditure	4									
Infrastructure - Road transport		30.878	33.848	30.418	148.734	125.055	125.055	229.323	140.316	12.619
Infrastructure - Electricity		4.013	16.308	6.987	39.050	21.050	21.050	57.985	110.555	119.200
Infrastructure - Water		68.747	13.855	19.853	51.878	67.364	67.364	3.142	4.500	12.040
Infrastructure - Sanitation		17.652	5.146	31.575	15.177	24.159	24.159	16.885	25.500	21.500
Infrastructure - Other		3.397	–	780	3.254	1.650	1.650	13.057	–	18.206
Infrastructure		*124.687*	*69.157*	*89.613*	*258.093*	*239.278*	*239.278*	*320.392*	*280.871*	*183.566*
Community		4.516	16.586	10.183	21.297	18.261	18.261	9.280	10.562	29.120
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets		10.083	28.072	8.603	44.174	56.577	56.577	24.706	14.951	–
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		2.731	680	19	–	–	–	575	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	2	142.017	114.496	108.418	323.563	314.116	314.116	354.953	306.384	212.686
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Infrastructure - Road transport		1.368.076	1.319.788	1.317.535	1.495.231	1.488.433	1.488.433	1.666.286	1.754.104	1.713.174
Infrastructure - Electricity		297.881	315.657	344.850	407.458	397.964	397.964	444.250	542.871	649.899
Infrastructure - Water		180.448	198.641	280.962	255.550	255.550	255.550	245.578	236.702	235.098
Infrastructure - Sanitation		87.735	111.352	279.306	131.155	131.155	131.155	144.445	166.279	184.040
Infrastructure - Other		468.600	495.158	394.538	489.815	489.815	489.815	500.067	497.207	512.495
Infrastructure		*2.402.739*	*2.440.596*	*2.617.190*	*2.779.208*	*2.762.917*	*2.762.917*	*3.000.627*	*3.197.163*	*3.294.707*
Community		8.674	8.813	153.808	14.982	11.634	11.634	16.248	22.051	46.318
Heritage assets		43	43	43	43	43	43	43	43	43
Investment properties		–	–	–	–	–	–	–	–	–
Other assets		31.931	19.112	16.906	65.800	51.304	56.624	61.576	56.378	35.827
Agricultural Assets		–	–	–	–	–	–	–	–	–
Biological assets		–	–	–	–	–	–	–	–	–
Intangibles		3.579	2.070	1.217	2.070	2.070	2.070	3.245	3.245	3.245
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	2.443.387	2.468.564	2.787.946	2.860.033	2.825.896	2.831.217	3.078.494	3.275.635	3.376.894
EXPENDITURE OTHER ITEMS										
Depreciation & asset impairment		18.531	19.610	33.972	19.186	28.680	28.680	30.780	32.922	35.107
Repairs and Maintenance by Asset Class	3	19.433	22.589	34.741	53.329	53.329	53.329	24.220	26.835	27.983
Infrastructure - Road transport		2.586	3.348	8.116	16.604	16.604	16.604	3.201	3.393	3.597
Infrastructure - Electricity		3.468	2.340	4.280	6.068	6.068	6.068	2.328	2.467	2.615
Infrastructure - Water		1.252	2.145	3.001	7.947	7.947	7.947	2.419	3.565	3.778
Infrastructure - Sanitation		3.403	5.507	7.439	3.000	3.000	3.000	4.195	4.446	4.713
Infrastructure - Other		1.779	1.279	1.597	1.344	1.344	1.344	1.223	1.297	867
Infrastructure		*12.488*	*14.620*	*24.433*	*34.964*	*34.964*	*34.964*	*13.366*	*15.168*	*15.570*
Community		3.646	3.257	2.746	12.819	12.819	12.819	5.246	5.755	6.192
Heritage assets		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Other assets	6, 7	3.299	4.712	7.562	5.546	5.546	5.546	5.608	5.912	6.221
TOTAL EXPENDITURE OTHER ITEMS		37.964	42.199	68.713	72.515	82.009	82.009	55.000	59.757	63.090
Renewal of Existing Assets as % of total capex		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*5.6%*	*11.8%*	*7.8%*
Renewal of Existing Assets as % of deprecn"		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*17.1%*	*33.9%*	*15.2%*
R&M as a % of PPE		*0.8%*	*0.9%*	*1.2%*	*1.9%*	*1.7%*	*1.7%*	*0.8%*	*0.8%*	*0.8%*
Renewal and R&M as a % of PPE		*1.0%*	*1.0%*	*1.0%*	*2.0%*	*2.0%*	*2.0%*	*1.0%*	*1.0%*	*1.0%*

CHAPTER 11

Legislation Compliance Status

The promulgation of the Municipal Finance Management Act (The Act) has brought in proficiency and control measures to local government in terms of budgeting, monitoring and accounting on public funds. The Act has had a profound effect on local government operations that required transformation in financial discipline and planning processes. The budget preparation for 2013/2014 to 2015/2016 complies with most of these key requirements.

The Act has created clear reporting standards for local government that conforms to international standards. In addition to providing for improved reporting by local government, the Act stipulates that new accounting and financial standards must be complied with. The Municipality's electronic reporting to National Treasury has also been complied with and has also improved over time. The monthly and quarterly returns to National Treasury have been submitted on time.

In accordance with the provisions of the Act, the Municipality has an approved Supply Chain Management policy, which was extensively consulted on. The policy is intended at regulating the supply chain management environment within the Municipality. Required resources (human, financial and otherwise) have been allocated to the Supply Chain Management department to enhance.

The reform agenda set out through the Municipal Finance Management Act includes new accounting standards, which includes national standards such as Generally Recognised Accounting Practice (GRAP).

These above mentioned accounting practices have been adhered to during the development of the budget. The Municipality's financial statements were prepared to comply with GRAP.

When preparing the budget the Municipality has complied with the requirements of the MFMA circular 28, which requires that the budget content and format must comply with the Act. The following processes were adhered to:

- The budget is legally compliant
- The process has a strong political oversight
- Performance of officials should meet the required standard
- Growth and development strategy is reflected in the budget
- There are clear linkages between the budget and the Mayoral priorities•

CHAPTER 12

Resolutions

1. The Council of Merafong City Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

   1.1. The annual budget of the municipality for the financial year 2013/14 and the multi-year and single-year capital appropriations as set out in the following tables:

   1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)

   1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)

   1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)

   1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source

   1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

   1.2.1. Budgeted Financial Position

   1.2.2. Budgeted Cash Flows

   1.2.3. Cash backed reserves and accumulated surplus reconciliation

   1.2.4. Asset management

2. The Council of Merafong City Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2013:

   2.1. the tariffs for property rates – Detailed below

   2.2. the tariffs for electricity – Detailed below

   2.3. the tariffs for the supply of water – Detailed below

   2.4. the tariffs for sanitation services – Detailed below

   2.5. the tariffs for solid waste services – Detailed below

3. The Council of Merafong City Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2013 the tariffs for other services, as contained in the Tariff Policy

4. To give proper effect to the municipality's annual budget, the Council of Merafong City Local Municipality approves:

   4.1. That the deficit which is as of a result of depreciation costs on fair value adjustments on infrastructure assets be funded from the accumulated surplus of R2.3 billion.

   4.2. That the municipality be permitted to enter into long-term loans for the funding of the capital programmes in respect of the 2013/14 financial year limited to an amount of R62.906 million for 2013/2014, R45 Million for 2014/2015 and R84 Million for 2015/2016, per financial year of the MTREF in terms of Section 46 of the Municipal Finance Management Act.

   4.3. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

5. That the annual Operating Revenue budget of R1 245 936 844 and Operating Expenditure budget of R1 322 256 844 including Operational Transfers and excluding capital transfers for the 2013/2014 Financial Year be tabled, which will result in a deficit of R76 320 000. That the deficit be funded from accumulated surplus.

6. That the annual Capital Budget of R354 953 Million Including capital transfers for the 2013/2014 Financial Year be approved.

7. That the following be approved in respect of Assessment Rates and the charge to be as follows:

   a) The property rates are to be levied in accordance with Council policies, unless otherwise indicated, and the Local Government Municipal Property Rates Act 2004 and the Local Government Municipal Finance Management Act 2003.

   b) Property rates are based on values indicated in the new General Valuation Roll. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplemental Valuation Rolls. All values are as at the date of the roll, being July 2012.

   c) Rebates and concessions are granted to certain categories of property usage or property owner.

   d) The definitions and listing of categories are reflected in the Rates Policy.

   e) Industrial / Commercial Properties – Undeveloped Land

All properties other than those defined below as residential will be rated as "non-residential" properties. This includes all undeveloped land. The cent-in-the-rand for all "non-residential" properties for 2013 / 2014 is proposed to be R 0, 02556.

f) Residential Properties

For all residential properties, as defined per the Rates Policy, the first R 65 000 of property value will be rebated by an amount equal to the rates payable on a property of R 65 000 in value.

All residential properties, as defined per the Rates Policy, will be levied a rate which is rebated by 10%. The cent in the rand for 2013 / 2014 is proposed to be R 0, 01065c

g) Agricultural Properties

Agricultural properties (including farms and small holdings) fall into three categories:

(a) Those used for residential purposes;
(b) Those used for industrial purposes;
(c) Those used for other businesses and commercial purposes

Properties in rural areas deemed to be small holdings or farms that are not used for *bona fide* farming, but are used as residential properties will be categorized as “residential”, provided that they meet the definition of a residential property as described in the Rates Policy. Such properties will qualify for the rebate of the first R 65 000 of municipal value as per the General Valuation Roll and the “rebated” cent-in-the-rand. The cent-in-the-rand for agricultural properties or small holdings that qualify for residential status is proposed to be R 0, 01065c

Properties in rural areas deemed to be small holdings or farms that are not used for bona fide farming, but are used for industrial or business purposes will be categorized as “business”. The cent-in-the-rand for agricultural properties or small holdings that qualify for business status is proposed to be R 0, 02556c

Properties in rural areas deemed to be small holdings or farms that are used for bona fide farming, will be categorized as “agricultural. The cent-in-the-rand for agricultural properties or small holdings that qualify for agricultural status is proposed to be R 0, 002663c

h) Public Service Infrastructure
In terms of the Municipal Property Rates Act, Council may not levy rates on the first 30% of the market value of Public Service Infrastructure. The remainder of the market value is rated at the non-residential cent-in-the-rand of R 0, 02556c

i) Mines

All Mine properties, as defined per the Rates Policy, will be levied a rate. The cent in the rand for 2012 / 2013 is proposed to be R 0, 03195c

j) Senior Citizens and Disabled Persons Rate Rebate

Registered owners of properties who are senior citizens and/or registered owners of properties who are disabled persons qualify for special rebates according to gross monthly household income. To qualify for the rebate(s) a property owner must be a

natural person and the owner of a property which satisfies the requirements for the residential rebate and must on the 1 July of the financial year:

I. occupy the property as his/her normal residence and
II. be at least 60 years of age or in receipt of a disability pension from the Department of Social Development and
III. be in receipt of a total monthly income from all sources (including income of spouses of owners)
IV. not be the owner of more than one property and
V. submit the application by 30 September for this rebate for the current financial year, failing which the rebate will not be granted.

The percentage rebate granted to different monthly household income levels will be determined according to the schedule below.

The proposed incomes and rebates for the 2013 / 2014 financial year as follows:

Gross Annual Household Income 2013/2014	% Rebate
R 1 To R 72 000	100%
R 72 001 to R 76 000	75%
R 76 001 to R 80 000	50%
R 80 001 to R 84 000	25%
R 84 001 and above	0%

k) Rebates for Certain Categories of Properties / Property Users

The categories of properties qualifying for exemption and rebates are as per the Rates Policy.

l) The Budget for 2013 / 2014 has been balanced using the estimated income from levying the rates proposed in this report.

m) Provision has been made in the Budget for 2013 / 2014 for the income forgone arising from the rebates and concessions proposed in this report as detailed in the Draft Rates Policy.

n) that in terms of Section 26(1) of the Municipal Property Rates Act, the payment of any amount owed emanating from the levy of rates as determined on 1 July 2013 is payable before or on 7 August 2013 and thereafter monthly before or on the date due as determined in (i) below: with the provision that the date(s) for payment of assessment rates with regard to owners mentioned in (ii) below shall be determined as follows:

As regards one half, on 7 October 2013

as regards the balance, on 7 April 2014;

(i) that the payment shall be as follows:

Other:	**Pensioners:**
7 August 2013	15 August 2013
10 September 2013	16 September 2013
7 October 2013	15 October 2013
7 November 2013	15 November 2013
9 December 2013	17 December 2013
7 January 2014	15 January 2014
7 February 2014	17 February 2014
7 March 2014	15 March 2014
7 April 2014	15 April 2014
7 May 2014	15 May 2014
9 June 2014	15 June 2014
7 July 2014	17 July 2014

(ii) that the following Mines as well as the responsible state institution may pay in accordance with (n) :

Mines	State Institutions
Blyvooruitzicht	Gauteng Government
Deelkraal	Dept. Justice
Doornfontein	S.A. Police Services
Elandsrand	Dept. of Land
Driefontein	Dept. Community Development
Western Deep Levels	

8 that interest be levied at the rate as determined from time to time by the Premier in terms of Section 50(A) of the Local Government Ordinance, 1939, (Ordinance 17 of 1939) which has been determined at prime rate with effect from 1 December 1997 by the Department of Finance on all arrear charges, rates and levies from the day following the due dates as determined in (ii) (d) and (ii) (e) above;

9 That the following electricity tariffs be approved and promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Electricity of the Merafong City Local Municipality, provided that the tariffs are approved by the National Electricity Regulator.

Proposed Tariff Structure - Merafong City Local Municipality				
Tariff Category		**2012/2013**	**Proposed 2013/2014**	**% change**
1 (a). Domestic				
Basic Charge		48.2334	52.0921	8.00%
	Block 1 (0 - 50kWh)	0.6710	0.7079	5.50%
	Block 2 (51 - 350kWh)	0.7954	0.8511	7.00%
	Block 3 (351 - 600kWh)	1.0816	1.1681	8.00%
Energy Charge	Block 4 (above 600kWh)	1.2968	1.4264	10.00%
2. Commercial				
Basic Charge		554.0397	598.3629	8.00%
Energy Charge		1.0263	1.1084	8.00%
*Pre-Paid		1.0263	1.1084	8.00%
3. Industrial				
Basic Charge		794.2975	857.8413	8.00%
Energy Charge		0.5752	0.6212	8.00%
Demand Charge		158.8506	171.5587	8.00%
3. Industrial -3%				
Basic Charge		794.2975	857.8413	8.00%
Energy Charge - 3 %		0.5752	0.6212	8.00%
Demand Charge - 3%		158.8506	171.5587	8.00%
Temporary Power		1.1258	1.2159	8.00%
Streetlights		0.8460	0.9137	8.00%
Council kWh		0.5529	0.5972	8.00%
2% Surcharge				

10. that the following Water Tariff be approved and the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Water of the Merafong City Local Municipality.

		2012/2013	2013/2014	% Increase
Residential 0 – 15 kilolitres		6.78	7.45	9.82%
Residential 16-35 kilolitres		9.16	10.06	9.82%
Residential 36 - 50		13.04	14.48	11.00%
Residential 51 kilolitres and above		14.86	16.49	11.00%
Business and Industrial	200 Kiloliters and below	14.86	16.32	9.82%
	Above 200 Kiloliters	15.60	17.32	11.00%
Special Consumers (Schools, Churches and welfare organisations)	200 Kiloliters and below	11.23	12.33	9.82%
	Above 200 Kiloliters	12.35	13.71	11.00%
Mines Domestic		9.76	10.72	9.82%
Mines Operations		9.76	10.72	9.82%
Availability Charge	Vacant Stands - Residential	35.00	40.00	14.29%
Availability Charge	Vacant stands-business	17.50	20.00	14.29%

11 that the following Refuse Removal Tariff be approved and the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Cleaning Services of the Merafong City Local Municipality:

CLEANSING: (PLUS V.A.T.):

		Present	Proposed 2013/2014	% Increase
Residential and Business	1 bin/week	82.50	90.00	9.09%
Business	Bin/3 x week	247.50	270.00	9.09%
Business	Bin/5 x week	412.50	450.00	9.09%
MMH (1.75M³) 1x per week		1236.25	1348.00	9.04%
MMH (1.75M³) 2x per week		2187.50	2385.00	9.03%
MMH (1.75M³) 3x per week		3125.00	3406.00	8.99%
MMH (1.75M³) 5x per week		5625.00	6132.00	9.01%
Bulk container (30M³) 1x per week		17952.50	19568.00	9.00%
Bulk container (30M³) 2x per week		27412.50	29880.00	9.00%
Bulk container (30M³) 3x per week		49450.00	53900.00	9.00%
Bulk container (30M³) 5x per week		80625.00	87881.00	9.00%
Temporary service	Per Bin	44.00	48.00	9.09%
Bulky waste	Per m³	220.00	240.00	9.09%
Special Exemption	Per m³	110.00	120.00	9.09%
Garden services waste	LDV/Trailer	27.50	30.00	9.09%
Small Animal Carcasses		82.50	90.00	9.09%
Bulky garden waste	1m³ - 3m³	209.00	228.00	9.09%
Bulky garden waste	3m³ and above	418.00	456.00	9.09%
Building rubble	per m³	220.00	240.00	9.09%
240 Liter Bins	Per Month for twelve months	20	20.00	0.00%

12 And that the following Sewerage Tariff be approved and that the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000) as the Tariff of Charges: Drainage Services of the Merafong City Local Municipality:

		2012/2013	Proposed 2013/2014	% Increase
Residential 0 – 15 kiloliters		3.55	3.80	7.04%
Residential 16-35 kiloliters		3.60	3.85	6.94%
Residential 36-50 kiloliters		3.65	3.90	6.85%
Max 50KL				
Business and Industrial	200 Kiloliters and below	3.65	3.90	6.85%
	Above 200 Kiloliters	4.02	4.30	6.97%
Special Consumers (Schools, Churches Welfare organisations and consumers as approved by council)	200 Kiloliters and below	3.55	3.80	7.04%
	Above 200 Kiloliters	3.65	3.90	6.85%
Basic Charge (Payable by property owner)		20.00	21.50	7.50%
Basic Charge - Vacant Stands (Availability charge		45.00	47.75	6.11%

13 That Council approves the amendments to the Tariff Policy.

14 That Council approves the amendments to the Rating Policy.

15 That Council approves the amendments to the budget related policies of Council.

16 That council approves the miscellaneous tariffs as included in the tariff policy and that the tariffs be promulgated in terms of Sections 4 and 11(3) of the Municipal Systems Act, 2000 (Act 32 of 2000).

Municipal Managers Quality Certification